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# The Dangers of International Governmental Loans

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LET us assume *some* settlement reached in the matter of war-claims against Germany and her late Allies. We shall then have governments related to each other as creditors and debtors, in specific amounts, and on a scale never before known.

## DEBTOR AND CREDITOR GOVERNMENTS

*United States.*—The United States will appear as a lender only—not as a borrower—holding approximately ten billions of dollars of the obligations of our associates in the war. The largest claim runs against Great Britain; France is next in order, then Italy. Russia, and certain smaller powers owe us considerable sums.

*Great Britain.*—Great Britain will appear as debtor to the United States in a large sum (about four and a half billions), and, in much smaller sums, to various neutral Powers. Her credit account with Allies will be substantially twice as great as the debit, Russia, France and Italy being the chief debtors. She will also own a large portion of the enemy indemnity bonds.

*France.*—France will appear as debtor to Great Britain and ourselves in nearly equal amounts (about \$2,000,000,000 each)—and enough more to neutrals to bring her total to \$6,000,000,000, in round figures. She will be a creditor to Allies in sum approximately one-third her debits, unless the claims of French citizens for pre-

war loans to Russia be included. The government has, in fact, practically adopted these claims, which will stand on as high a plane as any other debts of a reconstructed Russia. France will also have received the largest single portion of enemy obligations.

*Italy.*—Italy will owe approximately four and a quarter billions—more than one-half to Great Britain, and nearly all of the remainder to us. She will have received considerable portions of enemy obligations.

*Belgium.*—Belgium will appear as a debtor for about \$1,400,000,000, in equally rough amounts to Great Britain, France and the United States. She will have received a large portion of the German indemnity bonds.

*Greece, Jugo-Slavia and Roumania.*—Greece, Jugo-Slavia and Roumania will appear as debtors to their bigger brothers in the fight, and will have received comfortable slices of the indemnity loaf.

*Poland and Tchoko-Slovakia.*—Poland and Tchoko-Slovakia will owe relatively small sums, unless the extravagant wars, still maintained by Poland, should result in large debits not yet made known.

*Russia.*—Russia will owe about three billion dollars to Great Britain, about one billion to France (excluding pre-war debt above mentioned) and approximately two hundred million to us. Her financial relations with the new border states, as they will be fixed at the end of the existing,

contests (March 30, 1920), cannot be forecast, but the sums involved are not likely to be large in comparison with the great figures we are considering. Russia will probably not hold any recognized claims against the former Central Empires.

*Germany.*—Germany will be burdened with an enormous external debt, and, although she made great advances of money to her late Allies, will probably have nothing whatever on the credit side of her international ledger.

*Austria-Hungary, Turkey and Bulgaria.*—Austria-Hungary, Turkey and Bulgaria will be in the same plight

*Japan.*—Turning to the East, Japan emerges as a creditor nation, but her balance sheet will not contain such extravagant figures as appear in the American-European situation.

*China.*—China will be a debtor nation, quite capable of paying all claims against her, unless she be hamstrung by outsiders, or too much bedevilled by insiders.

*South American Countries.*—South American countries, in so far as external relations are concerned, will be found in varying states—all the way from affluence (as in the Argentine Republic) to a strained, though embarrassed solvency (as in Brazil).

Doubtless, the first thought suggested by the outlines just given is that a clearing-house operation should at once be undertaken. Indeed, something of that sort would promptly be done if governments possessed the intelligence and elasticity in action of the average man of affairs. But even the most agile trader would hesitate somewhat more in dealing with the case before us, than with one

in which cash payments are involved, and in which all checks are equally certain to be paid on presentation. The transaction considered actually involves long-term notes whose makers are but dubiously solvent, and are sovereigns not subject to any well-defined judicial control.

Moreover, after all possible shuffling of the cards, the United States and Great Britain would emerge as net creditor nations, while Germany and her satellites would appear as net debtors. That statement alone justifies, I think, that most serious attention be given to the *principles* which it is my desire to emphasize.

#### DANGERS IN OWNERSHIP BY ONE NATIONAL TREASURY OF LARGE OBLIGATIONS OF OTHER NATIONAL TREASURIES

These principles are, *first*, that considerable debts held in one national treasury against other national treasuries constitute a grave menace to international peace, and, *second*, that this danger may be much diminished by transferring foreign governmental obligations out of the national treasuries and into the hands of the public throughout the world.

#### *Establishment of a Financial Balance of Power.*

It is a commonplace in history that loans to relatively weak nations have been used as a means for interfering in the domestic affairs of the debtor. The origin of the thing *may* have been innocently commercial; the first political pressure concerning it *may* have been made in the sole spirit of the collecting agency, but how often has the *dénouement* of the play been almost

naked conquest! Dealings of this sort, seen in various stages, appear in the contemporary history of China, Turkey and Egypt. The results of such intermeddling (however justifiable it may seem in a particular case) are usually some form of force used against the borrower, and many heart-burnings among the lenders and their rivals for world power. As in the case of the famous six-Power loan to China, governments that cannot themselves advance a sou, insist that their nationals be given a place as creditors. It is thus hoped to establish a financial balance of power, which, in turn, is hoped to insure against special political and economic privilege in the debtor's country.

The weakness of the borrowers, in the classic pre-war instances, tended to minimize the possible evil results of the system. Strong lending nations might, indeed, squabble over "compensations"—but some compensations they could force out of the borrower. It was scarcely necessary to contemplate armed resistance on his part, and all the dire consequences of fire lighted near to one's own dwelling.

Compared with these earlier cases, the situation created by the Great War is far more menacing.

Debtors and creditors alike are proud and powerful nations. Some have been accustomed to play the master's rôle. All are sensitive to foreign criticism. Temperament and tradition will inspire the fiercest resentment against him who would say, "You should not do this or that thing—you are about to waste the money you owe me!"

Those who have borrowed from us

have various colonial enterprises in hand. These may be called the fruit of imperialism, or of commendable commercial expansion, or of humanitarianism (of the White Man's Burden variety) according to the prejudices, the interests or the hypocrisy of various phrase-makers.

In any case, such ventures will almost certainly lead our debtors into military expenditures beyond those required by a policy of quiet self-containment.

They are also making, or about to make, various experiments in state ownership. As to these, the most ardent collectivist will scarcely prophesy anything but treasury deficits, at least in the earlier years of operation.

A protectionist revival is one of the legacies of war. Even in England attempts are being made, covertly and openly, to build the great imperial wall of which Chamberlain dreamed. That we, the wolf-tribes of the world, should experiment as we choose with protectionist doctrine applied to *our own homes*, must be granted—if only because of a necessary comity between wolves. But when we extend "protection" for our own trades around peoples whom we control by the sword, the case is different. Special privileges in foreign or colonial fields when gained by violence, must be held against violence; but that will cost money.

The British merchant marine—a magnificent monument of private enterprise in free competition—is being threatened by our alarming cry that our flag must float over our goods, cost what it may. Our subsidies will breed subsidies. The victims of infectious diseases curse each other as authors of the spreading evil. We

shall hear much of such imprecations in the future—with inquiry as to whose money is really supporting the competitors' ships.

Not only will Great Britain struggle to maintain her honestly-earned supremacy as a carrier on the Seven Seas, but she is fated to strive for military mastery of the watery fields and also of the air-ocean.

And now a new element enters into the age-long competition between fleets, whether they be peaceful or warlike. All must join in a scramble for oil. In jungle and desert and prairie, empire-builders push their adventurous way, seeking control of the precious fluid.

*Position of United States as a  
Creditor Nation*

In all the directions indicated, and in others that will occur to the reader, the debtors of the United States will be spending money, while contending along almost every line with American efforts for commercial expansion. Added to the protest of our traders will be the lamentation of the very righteous among us, who feel that henceforth our power (so dangerously great!) must everywhere be employed to enforce something they will call "justice."

Even in the expression of our "holier-than-thou" views, we shall inevitably display "the unconscious arrogance of conscious wealth." Entering into this arrogance, as a part of its very constitution, will be a large ignorance of distant and complicated situations.

Thus it is that upon the platform of the creditor, whose loans are presumably jeopardized by the activi-

ties of a debtor and a rival, our ambitious politicians, our immoderate enthusiasts and our keen traders will be able to excite and exploit the popular passion of patriotism, while disturbing a hundred delicate international situations. In the stirring of this witches' cauldron of trouble, we will not appear as a peculiar people. Every creditor country, similarly circumstanced with respect to debtor countries, will produce similar phenomena, and the latter will reply to every criticism with outraged indignation. All this, because human nature is as it is.

It will be said that anticipation of such universal quarrelling is needlessly pessimistic. Yet it has already begun. Several weeks ago, Congressional discussion of the proposal that we should defer for three years collection of interest charges from the Allies was enlivened by a member who declared that Great Britain could well pay these charges if, as had been reported, she is about to spend huge sums for a conquest of the air. The same protest appeared on streamers shown in the great St. Patrick's Day parade in New York, but directed against the British naval program. Organized press campaigns are inspired by the same spirit, though the graves are still green that hide the bodies of British and American soldiers fallen together in advancing against a common foe.

So far as we are concerned, a truce to mischief-making may be accomplished by the definitive understanding in respect to interest charges just mentioned. But three years will pass very quickly. Heaven forbid that the blustering winds now blowing

should have gathered more force at the end of that respite! Another adjustment may then be required by our much-strained debtors. Who can foretell the passions that may enter into a new negotiation?

I cannot, in this paper, further emphasize the grave dangers inherent in the ownership, by one national treasury of embarrassingly large obligations of other national treasuries. Enough has been said, I hope, to show that each relation of this kind results in the exposure of national nerves of pride and interest. These nerves may be attacked on the raw by a single chauvinist, minister or legislator, and they may be thrown into acute anguish by the loud cries of priest, politician, profiteer or thoughtless populace.

#### *Preventive Measures*

*Effect of Cancelled War-Debts on Debtor and Creditor Governments.*—Let us now consider preventive measures against the indicated malady.

Before presenting my own views, let me advert to a proposition often heard in Europe, and acclaimed by a very few voices here. It supposes that, as between allied and associated governments, all war debts shall be cancelled. This has the merit of simplicity, and of great advantage for net debtor governments. Great Britain and the United States would be net losers. Unfortunately, however, the American mind, before consenting to this radical proposal, would certainly insist upon an inquiry into, and an assessment of value, in the various territorial, commercial and political plums which our co-belligerents have extracted from the victory pie. I do not rail against this

appropriation; I only state that it has taken place, continues now to take place, and that the plums have presumptive value, evidenced by the struggle for them. And I further say that valuation of them in specific sums, accurately determined, is impossible, and that to attempt it would result in an exchange of bitter recriminations carrying to dangerous pitch those national passions which for a time the Paris Peace Conference suppressed, but evidently did not destroy. The whole subject is full of dynamite. Even without putting "mandates" in the scales to weigh them against dollars, we shall quarrel enough about them. We cannot say, "Let a sleeping dog lie," for they will not be quiet, but let us do nothing to make the dog bite.

My own suggestion runs as follows:

*Settlement of Enemy War Indemnity.*—First, the enemy war indemnity, and its distribution among the Allies should be fixed at the earliest possible moment. If, ten years hence, it should appear that a few more millions of marks *might* have been laid, let us not lament over the error. I shall not consider here the proper amount to be laid. I urge only that this prime question should not be left open, as may be done under the Treaty, for a long period. Objections to that course are obvious.

*Settlement with Germany.*—Second, the determination should be based on an estimate of total amounts that Germany can be expected to pay in six successive periods of five years each, in an ascending scale of periodic payments.

*Obligations of Varying Denominations.*—Third, these amounts should

be represented by obligations of varying denominations, some at least as low as five hundred dollars, bearing relatively high rates of interest, with appropriate sinking-fund provisions; the total to be paid in interest and principal not to be affected by the interest rate, which should be high enough to attract private purchasers throughout the world.<sup>1</sup> There is in all of us a speculative spirit, expressed in some part of our investments, however conservative we may be in respect to the balance. It is this spirit which furnishes money to nearly all new enterprises, and to old enterprises having exceptional need for funds. It is to this respectable speculative spirit that we should now turn in order to make a wide "spread" of national debts.

*Negotiable Obligations.*—Fourth, all inter-ally war debts, not cancelled by clearing-house operation to be similarly expressed in negotiable obligations.

*Exchange by United States of Claims against Allies for Enemy Obligations.*—

Fifth, the United States to offer to exchange our claims against Allies for enemy obligations received by them, up to the total held by us, if corresponding indemnity bonds are held by our debtors.

*Offer of Residuum War Obligations to Private Investors.*—Sixth, any residuum of war obligations held by one national treasury, against another, after all exchanges are completed, to be offered continuously, until sold, to private investors throughout the world, the seller making no indorsement of his

debtor's paper. Some of those who have borrowed from us might not accept our offer of exchange, preferring to try to realize cash from German obligations, while deferring to as remote a date as possible final payment of their debts to us. We should then be selling Allied, instead of enemy obligations to the public. If our offer were accepted in its entirety, there would be ten billions less to float on the world's market, than if it were rejected. In either case, governmental promises to pay would be scattered "from China to Peru," and direct claims of one government against another would no longer threaten our peace.

In the long run, large portions of these obligations would doubtless drift into the country of origin, thus happily transforming (*pro tanto*) an external into an internal debt. If this process were complete, and if unfortunately the obligor should find it necessary to ask an accommodation with respect to these obligations, only a slight shock, if any, to international relations would result. The disturbance would undoubtedly be much greater if appeal for modification of terms were made to large bodies of foreign holders. Indeed, the governments of these holders might, if they chose, take up the cudgels for their citizens, and produce, in part, the political strains which we are endeavoring to avoid. But, with a wide dispersion of the holdings, we may count upon diversity of political interests among the governments of the holders, considerable delay in making an accord of action, and, in general, *avoidance of volcanic procedure by any of them.*

<sup>1</sup> A modification of this plan may be found in the issue of annuities, for various periods up to thirty years.

You may ask then, "What security will purchasers have as to payment of the obligations in question?" They will have the only security that is worth while in dealing with a sovereign state—that is our well-founded belief that "Honesty is the best policy." Self-interested desire to maintain national credit affords, in the case of the great governments under con-

sideration, a better guaranty for their obligations than any other that can be devised. To use the ultimatum and the dreadnaught in running a collection agency—that way madness lies.

The proposition I make will not insure the world's peace, but it will dissipate some of the clouds that blacken the sky.